Mogalakwena Local Municipality
(Registration number LIM367)
Annual Financial Statements
for the year ended 30 June 2020

General Information

Nature of business and principal activities	Local Government
The following is included in the scope of operation	Provision of basic services such as water, sanitation and electricity

Councillors

Cllr Matsemela RA - Mayor
Cllr Mathebula HS - Speaker
Cllr Monare MB - Acting Chief Whip
Cllr Madiba MJ - Chairperson -Budget and Treasury Office
Cllr Satege LK - Chairperson - MPAC
Cllr Mokwele MF - Chairperson - Electrical Services
Cllr Senomadi MM - Chairperson - Technical Services
Cllr Tefo MS - Chairperson - Corporate Services
Cllr Olifant PL - Chairperson - Planning and Economic Development
Cllr Legodi LG - Chairperson - Community Services
Cllr Maepa MR - Chairperson - Traffic and Emergency Services
Cllr Tjale MR - Chairperson - Special Projects
Cllr Dekker KQ
Cllr Baloyi MB
Cllr Coetzee Y
Cllr Debeila SA
Cllr Hlako NR
Cllr Kekana ME
Cllr Kekana TM
Cllr Kekana VH (Deceased)
Cllr Laka LE
Cllr Lamola LN
Cllr Langa LD
Cllr Langa MJ
Cllr Lelaka MS
Cllr Lentsoane MC
Cllr Leshiba MC
Cllr Leso EN
Cllr Letwaba MS
Cllr Magongwa BN
Cllr Majadibody KS
Cllr Makgeta TJ
Cllr Maloba LP
Cllr Maluleke KJ
Cllr Mampane MJ
Cllr Mashala LJ
Cllr Matlala MS
Cllr Matlala MS
Cllr Meteleni MS
Cllr Mogale MT
Cllr Molefe LJ
Cllr Molekoa RM
Cllr Moloto ME
Cllr Monama TE
Cllr Monene RN

General Information

	Cllr Mooka TL Cllr Nkhuna BT Cllr Pooe TT Cllr Puka LE Cllr Rapatsa MM Cllr Ratema MA Cllr Alberts S Cllr Seanego TJ Cllr Sebajane RP Cllr Sebatjane MP Cllr Seema SE Cllr Sekhaolelo SM Cllr Sekoala MA Cllr Selemela RG Cllr Senosha SC Cllr Thobane MS Cllr Tjale MR Cllr Tlhako VK Cllr Tlhaku MS Cllr Tselana PA
Grading of local authority	Grade 5
Accounting Officer	Ms Beverly S Gunqisa
Chief Finance Officer (CFO)	Mr Lekubu Charles Malema
Registered office	54 Retief Street Mokopane Mokopane 0600
Postal address	PO Box 34 Mokopane 0600
Bankers	Standard Bank
Auditors	AGSA (Limpopo Region) Registered Auditors

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and will be given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

Beverly S Gunqisa
Municipal Manager

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in local government and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on continued grant funding from the national government.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

As included in Note 1 of the annual financial statements, the municipality has consistently applied the accounting policies that are compliant to GRAP standards.

The annual financial statements prepared in accordance with the South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality is as follows:

Name	Nationality
Beverly S Gunqisa	RSA

6. Auditors

AGSA (Limpopo Region) will continue in office for the next financial period.

7. Non-compliance with applicable legislation

Except for the reported Unauthorised, Irregular and Fruitless Expenditure which was incurred in contravention with applicable regulations, no other non compliances were identified by the accounting officer

8. PAA Act

The Auditor General of South Africa (AGSA Limpopo Region) have indicated that the municipality is one of the municipalities identified as pilots for implementation of the amended Public Audit Act. The implementation will have some impact on the audit for the current year.

9. Impact of COVID-19 on the Municipality:

The Minister of Finance exempted municipalities and municipal entities from submitting key reports. The notice from the Minister allows for a two-month delay in the submission of Annual Financial Statements, Annual Reports, Audit Opinions, Oversight reports and associated processes.

Accounting Officer's Report

The context of this exemption flows from the Minister of Cooperative Governance and Traditional Affairs’ announcement of the national state of disaster in terms of the Disaster Management Act to enable government and the country at large to manage the spread of the Covid-19 virus. Following the initial announcements of the national state of disaster, subsequent extensions and different levels were communicated.

Consequently the submission date of the annual financial statements was moved from 31 August 2020 to a revised date of 31 October 2020.

In addition, In terms of Section 28(2)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Section 23(3) of the Municipal Budget and Reporting Requirements (MBRR), we have adjusted our 2020/21 MTREF budgets to account for the revised funding allocations that were made available to respond to COVID-19 during the 2020 National Supplementary Budget delivered by the Minister of Finance on 24 June 2020.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

Beverly S Gunqisa
Municipal Manager

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	9	403 639 484	405 103 521
Operating lease asset	7	2 805 504	482 605
Receivables from exchange transactions	10&12	387 847 853	150 594 755
Receivables from non-exchange transactions	11&12	130 155 373	43 458 388
Cash and cash equivalents	13	35 912 598	27 491 413
		960 360 812	**627 130 682**
Non-Current Assets			
Investment property	3	74 411 000	74 411 020
Property, plant and equipment	4	5 123 093 245	4 837 419 846
Intangible assets	5	1 416 210	1 888 997
Heritage assets	6	5 867 835	5 736 342
Receivables from exchange transactions	10	10 571 839	4 960 368
		5 215 360 129	**4 924 416 573**
Total Assets		**6 175 720 941**	**5 551 547 255**
Liabilities			
Current Liabilities			
Operating lease liability	7	68 228	-
Payables from exchange transactions	16	368 336 280	333 818 006
VAT payable	17	64 355 801	62 347 672
Consumer deposits	18	23 976 869	22 232 046
Unspent conditional grants and receipts	14	77 251 357	4 834 613
Provisions	15	2 548 857	3 097 550
		536 537 392	**426 329 887**
Non-Current Liabilities			
Provisions	15	116 215 036	114 238 985
Total Liabilities		**652 752 428**	**540 568 872**
Net Assets		**5 522 968 513**	**5 010 978 383**
Accumulated surplus		5 522 968 513	5 010 978 383

* See Note 47 & 46

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods		742 792	685 364
Service charges	20	398 424 752	335 196 512
Rendering of services		86 041	1 734
Rental of facilities and equipment	21	3 834 813	1 508 476
Licences and permits	23	8 333 821	8 743 072
(Losses)/Gains on sale of Land inventory		(360 044)	13 827 618
Other income		2 542 504	1 738 331
Interest received	26	51 224 342	49 516 336
Fair value adjustments		-	24 863 000
Total revenue from exchange transactions		**464 829 021**	**436 080 443**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	79 014 224	68 002 459
Transfer revenue			
Government grants & subsidies	28	697 450 274	740 980 922
Fines, Penalties and Forfeits	22	1 299 550	3 145 433
Total revenue from non-exchange transactions		**777 764 048**	**812 128 814**
Total revenue	19	**1 242 593 069**	**1 248 209 257**
Expenditure			
Bulk purchases	35	(244 348 036)	(240 740 923)
Contracted services	36	(194 361 645)	(346 073 646)
Debt Impairment	34	129 851 888	(54 956 140)
Depreciation and amortisation	31	(134 053 421)	(59 228 985)
Employee related costs	29	(342 265 480)	(294 281 042)
Finance costs	33	(36 448 850)	(2 685 720)
General Expenses	37	(113 226 721)	(104 081 526)
Impairment loss	32	-	(2 583 457)
Lease rentals on operating lease	24	(1 016 009)	(920 990)
Loss on disposal of assets and liabilities		-	(89 554)
Remuneration of councillors	30	(23 647 478)	(29 349 950)
Total expenditure		**(959 515 752)**	**(1 134 991 933)**
Surplus for the year		**283 077 317**	**113 217 324**

* See Note 47 & 46

Mogalakwena Local Municipality

(Registration number LIM367)
Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**4 351 854 609**	**4 351 854 609**
Changes in net assets		
Prior year adjustments	545 906 450	545 906 450
Net income (losses) recognised directly in net assets	545 906 450	545 906 450
Surplus for the year	113 217 324	113 217 324
Total recognised income and expenses for the year	659 123 774	659 123 774
Total changes	659 123 774	(1 737 003 962)
	-	-
Restated* Balance at 01 July 2019	**4 791 003 848**	**4 791 003 848**
Changes in net assets		
Prior period adjustments	448 887 348	448 887 348
Net income (losses) recognised directly in net assets	448 887 348	448 887 348
Surplus for the year	283 077 317	283 077 317
Total recognised income and expenses for the year	731 964 665	731 964 665
Total changes	731 964 665	731 964 665
Balance at 30 June 2020	**5 522 968 513**	**5 522 968 513**

Note(s)

* See Note 47 & 46

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Service charges		175 783 280	212 343 450
Grants		769 867 018	728 086 999
Interest income		51 224 342	49 516 336
Property rates and other receipts		(6 292 745)	73 153 448
		990 581 895	1 063 100 233
Payments			
Employee costs		(365 912 958)	(318 525 636)
Suppliers		(309 348 603)	(526 349 253)
Finance costs		(36 448 850)	(2 685 720)
		(711 710 411)	(847 560 609)
Net cash flows from operating activities	41	**278 871 484**	**215 539 624**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(270 450 299)	(374 350 336)
Proceeds from sale of financial assets		-	24 863 000
Net cash flows from investing activities		**(270 450 299)**	**(349 487 336)**
Net increase/(decrease) in cash and cash equivalents		**8 421 185**	**(133 947 712)**
Cash and cash equivalents at the beginning of the year		27 491 413	161 439 125
Cash and cash equivalents at the end of the year	13	**35 912 598**	**27 491 413**

* See Note 47 & 46

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sales & rendering of services	1 597 936	-	**1 597 936**	742 792	**(855 144)**	N1
Service charges	409 913 154	18 988 654	**428 901 808**	398 424 752	**(30 477 056)**	
Agency services	-	8 697 515	**8 697 515**	86 041	**(8 611 474)**	N2
Rental of facilities and equipment	1 691 954	-	**1 691 954**	3 834 813	**2 142 859**	
Licences and permits	10 334 481	(8 697 515)	**1 636 966**	8 333 821	**6 696 855**	
Loss on sale of land inventory	-	-	**-**	(360 044)	**(360 044)**	
Operational revenue	-	-	**-**	2 542 504	**2 542 504**	
Interest earned- external investments	31 265 525	(25 000 000)	**6 265 525**	5 828 783	**(436 742)**	N3
Interest received - outstanding debtors	19 131 424	22 000 000	**41 131 424**	45 395 559	**4 264 135**	N4
Total revenue from exchange transactions	**473 934 474**	**15 988 654**	**489 923 128**	**464 829 021**	**(25 094 107)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	80 769 886	(1 950 000)	**78 819 886**	79 014 224	**194 338**	
Transfer revenue						
Government grants & subsidies	930 575 000	10 000 000	**940 575 000**	697 450 274	**(243 124 726)**	N5
Gains	25 317 139	-	**25 317 139**	-	**(25 317 139)**	N6
Fines, Penalties and Forfeits	6 793 648	-	**6 793 648**	1 299 550	**(5 494 098)**	N7
Other own revenue	2 091 337	-	**2 091 337**	-	**(2 091 337)**	
Total revenue from non-exchange transactions	**1 045 547 010**	**8 050 000**	**1 053 597 010**	**777 764 048**	**(275 832 962)**	
Total revenue	**1 519 481 484**	**24 038 654**	**1 543 520 138**	**1 242 593 069**	**(300 927 069)**	
Expenditure						
Employee related costs	(378 961 326)	51 587 738	**(327 373 588)**	(342 265 480)	**(14 891 892)**	
Remuneration of councillors	(25 206 281)	-	**(25 206 281)**	(23 647 478)	**1 558 803**	
Depreciation and amortisation	(78 893 112)	-	**(78 893 112)**	(134 053 421)	**(55 160 309)**	N8
Finance costs	-	-	**-**	(36 448 850)	**(36 448 850)**	N9
Lease rentals on operating lease	-	-	**-**	(1 016 009)	**(1 016 009)**	
Debt Impairment	(7 000 000)	(3 000 000)	**(10 000 000)**	129 851 888	**139 851 888**	N10
Bulk purchases	(280 617 637)	29 010 980	**(251 606 657)**	(244 348 036)	**7 258 621**	
Contracted Services	(176 061 817)	(48 762 299)	**(224 824 116)**	(194 361 645)	**30 462 471**	N11
Transfers and Subsidies	(1 347 602)	60 805	**(1 286 797)**	-	**1 286 797**	N12
General Expenses	(92 089 467)	4 010 068	**(88 079 399)**	(113 226 721)	**(25 147 322)**	
Total expenditure	**(1 040 177 242)**	**32 907 292**	**(1 007 269 950)**	**(959 515 752)**	**47 754 198**	
Surplus before taxation	**479 304 242**	**56 945 946**	**536 250 188**	**283 077 317**	**(253 172 871)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**479 304 242**	**56 945 946**	**536 250 188**	**283 077 317**	**(253 172 871)**	
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	24 626 989	178 500 000	**203 126 989**	403 639 484	**200 512 495**	
Current portion of long term receivables	5 518 488	-	**5 518 488**	-	**(5 518 488)**	
Other Debtors	150 963 493	(110 000 000)	**40 963 493**	-	**(40 963 493)**	
Call Investments Deposits	60 000 000	(60 000 000)	**-**	-	**-**	
Operating lease asset	-	-	**-**	2 805 504	**2 805 504**	
Consumer debtors	187 279 422	57 078 818	**244 358 240**	16 872 588	**(227 485 652)**	
Receivables from non-exchange transactions	-	-	**-**	130 155 373	**130 155 373**	
Cash and cash equivalents	6 949 110	17 940 000	**24 889 110**	35 912 598	**11 023 488**	
	435 337 502	**83 518 818**	**518 856 320**	**589 385 547**	**70 529 227**	
Non-Current Assets						
Long term receivables	45 498 000	-	**45 498 000**	-	**(45 498 000)**	
Investment property	38 029 892	232 328 000	**270 357 892**	74 411 000	**(195 946 892)**	
Property, plant and equipment	6 667 816 090	(1 617 992 594)	**5 049 823 496**	5 123 093 245	**73 269 749**	
Intangible assets	1 705 087	-	**1 705 087**	1 416 210	**(288 877)**	
Heritage assets	-	-	**-**	5 867 835	**5 867 835**	
Receivables from non-exchange transactions	-	-	**-**	10 571 839	**10 571 839**	
	6 753 049 069	**(1 385 664 594)**	**5 367 384 475**	**5 215 360 129**	**(152 024 346)**	
Total Assets	**7 188 386 571**	**(1 302 145 776)**	**5 886 240 795**	**5 804 745 676**	**(81 495 119)**	
Liabilities						
Current Liabilities						
Operating lease liability	-	-	**-**	68 228	**68 228**	
Payables from exchange transactions	296 520 801	(26 895 894)	**269 624 907**	368 336 280	**98 711 373**	
VAT payable	-	-	**-**	64 355 801	**64 355 801**	
Consumer deposits	22 271 761	-	**22 271 761**	23 976 869	**1 705 108**	
Unspent conditional grants and receipts	-	-	**-**	77 251 357	**77 251 357**	
Provisions	4 593 882	-	**4 593 882**	2 548 857	**(2 045 025)**	
	323 386 444	**(26 895 894)**	**296 490 550**	**536 537 392**	**240 046 842**	
Non-Current Liabilities						
Provisions	92 770 588	-	**92 770 588**	116 215 036	**23 444 448**	
Total Liabilities	**416 157 032**	**(26 895 894)**	**389 261 138**	**652 752 428**	**263 491 290**	
Net Assets	**6 772 229 539**	**(1 275 249 882)**	**5 496 979 657**	**5 151 993 248**	**(344 986 409)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	6 772 229 538	(1 275 249 881)	**5 496 979 657**	5 505 046 572	**8 066 915**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property rates	60 577 415	5 177 850	**65 755 265**	-	**(65 755 265)**	
Service charges	307 435 223	38 761 764	**346 196 987**	-	**(346 196 987)**	
Other revenue	75 612 750	(26 616 000)	**48 996 750**	-	**(48 996 750)**	
Transfers and Subsidies - Operational	452 100 000	(2 500 000)	**449 600 000**	-	**(449 600 000)**	
Transfers and subsidies - Capital	406 475 000	12 500 000	**418 975 000**	-	**(418 975 000)**	
Interest	45 614 250	(11 403 000)	**34 211 250**	-	**(34 211 250)**	
	1 347 814 638	**15 920 614**	**1 363 735 252**	-	**(1 363 735 252)**	
Payments						
Suppliers and Employee costs	(952 936 528)	3 860 316	**(949 076 212)**	-	**949 076 212**	
Finance costs	(7 000 000)	-	**(7 000 000)**	-	**7 000 000**	
Transfers and grants	(1 348 000)	(61 000)	**(1 409 000)**	-	**1 409 000**	
	(961 284 528)	**3 799 316**	**(957 485 212)**	**-**	**957 485 212**	
Net cash flows from operating activities	**386 530 110**	**19 719 930**	**406 250 040**	**-**	**(406 250 040)**	
Cash flows from investing activities						
Proceeds from sale of property, plant and equipment	25 317 000	(7 595 000)	**17 722 000**	-	**(17 722 000)**	
Capital assets	(406 475 000)	(14 894 738)	**(421 369 738)**	-	**421 369 738**	
Net cash flows from investing activities	**(381 158 000)**	**(22 489 738)**	**(403 647 738)**	**-**	**403 647 738**	
Net increase/(decrease) in cash and cash equivalents	5 372 110	(2 769 808)	**2 602 302**	-	**(2 602 302)**	
Cash and cash equivalents at the beginning of the year	61 577 000	(34 085 587)	**27 491 413**	-	**(27 491 413)**	
Cash and cash equivalents at the end of the year	**66 949 110**	**(36 855 395)**	**30 093 715**	**-**	**(30 093 715)**	

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2020											
Financial Performance											
Property rates	80 769 886	(1 950 000)	78 819 886	-		78 819 886	79 014 224		194 338	100 %	98 %
Service charges	409 913 154	18 988 655	428 901 809	-		428 901 809	404 063 745		(24 838 064)	94 %	99 %
Investment revenue	31 265 525	(25 000 000)	6 265 525	-		6 265 525	5 828 783		(436 742)	93 %	19 %
Transfers recognised - operational	452 100 000	(2 500 000)	449 600 000	-		449 600 000	446 756 497		(2 843 503)	99 %	99 %
Other own revenue	66 957 919	22 000 000	88 957 919	-		88 957 919	63 546 438		(25 411 481)	71 %	95 %
Total revenue (excluding capital transfers and contributions)	**1 041 006 484**	**11 538 655**	**1 052 545 139**	**-**		**1 052 545 139**	**999 209 687**		**(53 335 452)**	**95 %**	**96 %**
Employee costs	(378 961 326)	51 587 738	(327 373 588)	-	-	(327 373 588)	(318 872 779)	-	8 500 809	97 %	84 %
Remuneration of councillors	(25 206 281)	-	(25 206 281)	-	-	(25 206 281)	(23 572 031)	-	1 634 250	94 %	94 %
Debt impairment	(7 000 000)	(3 000 000)	(10 000 000)			(10 000 000)	(275 138 616)	-	(265 138 616)	2 751 %	3 931 %
Depreciation and asset impairment	-	-	-			-	(134 053 421)	-	(134 053 421)	DIV/0 %	DIV/0 %
Materials and bulk purchases	(298 892 116)	33 728 801	(265 163 315)	-	-	(265 163 315)	(249 125 967)	-	16 037 348	94 %	83 %
Other expenditure	(330 117 519)	(49 409 246)	(379 526 765)	-	-	(379 526 765)	(296 135 170)	-	83 391 595	78 %	90 %
Total expenditure	**(1 040 177 242)**	**32 907 293**	**(1 007 269 949)**	**-**	**-**	**(1 007 269 949)**	**(1 296 897 984)**	**-**	**(289 628 035)**	**129 %**	**125 %**
Surplus/(Deficit)	**829 242**	**44 445 948**	**45 275 190**	**-**		**45 275 190**	**(297 688 297)**		**(342 963 487)**	**(658)%**	**(35 899)%**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	478 475 000	12 500 000	490 975 000	-		490 975 000	308 120 798		(182 854 202)	63 %	64 %
Surplus (Deficit) after capital transfers and contributions	**479 304 242**	**56 945 948**	**536 250 190**	**-**		**536 250 190**	**10 432 501**		**(525 817 689)**	**2 %**	**2 %**
Surplus/(Deficit) for the year	**479 304 242**	**56 945 948**	**536 250 190**	**-**		**536 250 190**	**10 432 501**		**(525 817 689)**	**2 %**	**2 %**

Capital expenditure and funds sources

Total capital expenditure	515 363 100	18 094 617	533 457 717	-		533 457 717	87 329 754		(446 127 963)	16 %	17 %

Cash flows

Net cash from (used) operating	386 530 110	19 719 930	406 250 040	-		406 250 040	278 871 484		(127 378 556)	69 %	72 %
Net cash from (used) investing	(381 158 000)	(22 489 738)	(403 647 738)	-		(403 647 738)	(270 450 299)		133 197 439	67 %	71 %
Net increase/(decrease) in cash and cash equivalents	**5 372 110**	**(2 769 808)**	**2 602 302**	**-**		**2 602 302**	**8 421 185**		**5 818 883**	**324 %**	**157 %**
Cash and cash equivalents at the beginning of the year	61 577 000	(34 085 587)	27 491 413	-		27 491 413	27 491 413		-	100 %	45 %
Cash and cash equivalents at year end	**66 949 110**	**(36 855 395)**	**30 093 715**	**-**		**30 093 715**	**35 912 598**		**(5 818 883)**	**119 %**	**54 %**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2019				
Financial Performance				
Property rates				68 002 459
Service charges				335 196 512
Investment revenue				49 516 336
Transfers recognised - operational				400 680 536
Other own revenue				54 513 028
Total revenue (excluding capital transfers and contributions)				**907 908 871**
Employee costs	-	-	-	(294 281 042)
Remuneration of councillors	-	-	-	(29 349 950)
Debt impairment	-	-	-	(57 539 597)
Depreciation and asset impairment	-	-	-	(59 228 985)
Finance charges	-	-	-	(2 685 720)
Materials and bulk purchases	-	-	-	(240 740 923)
Other expenditure	-	-	-	(451 165 716)
Total expenditure	**-**	**-**	**-**	**(1 134 991 933)**
Surplus/(Deficit)				**(227 083 062)**
Transfers recognised - capital				340 300 386
Surplus (Deficit) after capital transfers and contributions				**113 217 324**
Surplus/(Deficit) for the year				**113 217 324**
Capital expenditure and funds sources				
Total capital expenditure				670 827 158

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Cash flows				
Net cash from (used) operating				215 539 624
Net cash from (used) investing				(349 487 336)
Net increase/(decrease) in cash and cash equivalents				**(133 947 712)**
Cash and cash equivalents at the beginning of the year				140 394 313
Cash and cash equivalents at year end				**6 446 601**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In the process of applying its accounting policies, and in preparing the annual financial statements, management is required to make various judgements, including estimates and assumptions, that may affect the determination of the reporting framework, affect amounts represented in the annual financial statements and as well as related disclosures. Use of available information and the application of judgements is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 3).

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Accounting Policies

1.6 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	5-60 years
Plant and equipment	Straight line	2-15 years
Furniture and fixtures	Straight line	5-15 years
Motor vehicles	Straight line	7-15 years
Office equipment	Straight line	5-10 years
IT equipment	Straight line	5- 10 years
Water	Straight line	5-100 years
Community assets	Straight line	5-60 years
Other assets	Straight line	5-20 years
Specialist vehicles	Straight line	10-15 years
Recreational facilities	Straight line	10-50
Electricity	Straight line	10-60 years
Sewerage/ Solid Waste	Straight line	5-80 years
Sanitation	Straight line	10-60 years
Roads and paving	Straight line	5-80 years
Railways	Straight line	30 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

1.6 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Accounting Policies

1.7 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software purchased	Straight line	5 years

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Heritage assets are not depreciated owing to uncertainity regarding to their estimated useful lives. The municipality assess at each reporting date if there is an indication of impairment.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 4).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

1.8 Heritage assets (continued)

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or

1.9 Financial instruments (continued)

- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;

Accounting Policies

1.9 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

1.10 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the 4,5%.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories except for land inventory are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

Land inventory are initially measured at cost. For historic land inventories without date of acquisition and/ or donation, is measured at fair value less cost to sell.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality except for land inventory

1.11 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

1.13 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Accounting Policies

1.14 Employee benefits (continued)

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.14 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.15 Provisions and contingencies (continued)

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

1.17 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.18 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued requires the following (effective from 1 April 2008):

1.24 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Internal reserves

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

Capitalisation reserve

On the implementation of GAMAP/GRAP, the balance of certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment, were transferred to a Capitalisation Reserve rather than the accumulated surplus/deficit, as in prior years, in terms of a directive (Circular No. 18) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation charge that will be incurred over the useful lives of these items of property, plant and equipment is offset by transfers from this reserve to the accumulated surplus/deficit.

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/deficit.

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.25 Internal reserves (continued)

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.26 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Accounting Policies

1.28 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

Standard/Interpretation	Effective date: Years beginning on or after	Expected Impact
GRAP 104 Financial Statements	01 April 2020	There will be a material impact

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	74 411 000	-	74 411 000	74 411 020	-	74 411 020

Reconciliation of investment property - 2020

	Opening balance	**Total**
Investment property	74 411 000	74 411 000

Reconciliation of investment property - 2019

	Opening balance	**Additions**	**Fair value adjustments**	**Depreciation**	**Total**
Investment property	38 029 892	26 831 551	9 616 000	(66 423)	74 411 020

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

3. Investment property (continued)

- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	1 799 473	1 508 476

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land and Buildings	499 461 840	(109 654 050)	389 807 790	496 962 665	(92 406 846)	404 555 819
Plant and machinery	30 056 953	(12 082 871)	17 974 082	29 778 959	(12 030 751)	17 748 208
Motor vehicles	51 560 881	(24 081 459)	27 479 422	50 966 307	(24 067 302)	26 899 005
Furniture and Office Equipment	8 698 516	(4 587 459)	4 111 057	8 565 674	(4 582 769)	3 982 905
IT equipment	10 227 406	(3 416 555)	6 810 851	9 332 506	(3 297 077)	6 035 429
Electrical Infrastructure	398 049 127	(160 474 208)	237 574 919	387 708 478	(151 546 577)	236 161 901
Community	214 385 849	(115 490 416)	98 895 433	214 385 850	(107 717 502)	106 668 348
Roads Infrastructure	952 314 458	(444 774 736)	507 539 722	952 314 458	(409 016 773)	543 297 685
Sanitation and solid waste infrastructure	186 535 661	(64 530 608)	122 005 053	171 753 052	(61 282 063)	110 470 989
Water network	3 220 646 355	(596 799 115)	2 623 847 240	3 101 924 968	(536 922 788)	2 565 002 180
Work in progress (WIP)	1 087 047 676	-	1 087 047 676	816 597 377	-	816 597 377
Total	**6 658 984 722**	**(1 535 891 477)**	**5 123 093 245**	**6 240 290 294**	**(1 402 870 448)**	**4 837 419 846**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Depreciation	Total
Land and Buildings	404 555 819	2 499 176	(17 247 205)	389 807 790
Plant and machinery	17 748 208	277 998	(52 124)	17 974 082
Motor vehicles	26 899 005	594 574	(14 157)	27 479 422
Office equipment	3 982 905	132 842	(4 690)	4 111 057
IT equipment	6 035 429	894 899	(119 477)	6 810 851
Electrical Infrastructure	236 161 901	10 340 648	(8 927 630)	237 574 919
Community	106 668 348	-	(7 772 915)	98 895 433
Roads Infrastructure	543 297 685	-	(35 757 963)	507 539 722
Wastewater network	110 470 989	14 782 609	(3 248 545)	122 005 053
Water network	2 565 002 180	118 721 387	(59 876 327)	2 623 847 240
WIP	816 597 377	270 450 299	-	1 087 047 676
	4 837 419 846	**418 694 432**	**(133 021 033)**	**5 123 093 245**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land and Buildings	440 004 674	-	(18 218 969)	-	(17 229 886)	404 555 819
Plant and machinery	19 669 924	450 869	-	(242 993)	(2 129 592)	17 748 208
Motor vehicles	31 492 742	-	-	305 307	(4 899 044)	26 899 005
Office equipment	3 385 849	930 963	-	342 918	(676 825)	3 982 905
IT equipment	6 916 426	179 108	-	92 635	(1 152 740)	6 035 429
Electrical Equipment	191 086 554	52 759 897	-	-	(7 684 550)	236 161 901
Community Assets	114 441 263	-	-	-	(7 772 915)	106 668 348
Roads Infrastructure	543 497 120	35 128 849	-	-	(35 328 284)	543 297 685
Wastewater network	113 642 540	-	-	-	(3 171 551)	110 470 989
Water network	2 409 829 784	209 427 362	-	-	(54 254 966)	2 565 002 180
Work in Progress (WIP)	679 460 534	137 136 843	-	-	-	816 597 377
	4 553 427 410	**436 013 891**	**(18 218 969)**	**497 867**	**(134 300 353)**	**4 837 419 846**

Pledged as security

Carrying value of assets pledged as security is R Nil

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

4. Property, plant and equipment (continued)

Work In Progress

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Asset Class	Opening Balance	Additions	Total
Community	65 530 879	13 115 879	78 646 758
Electrical Infrustructure	10 962 638	-	10 962 638
Buildings	24 396 423	-	24 396 423
Roads Infrustructure	20 989 269	15 105 022	36 094 291
Waste Water Network	194 597 432	62 768 116	257 365 548
Water Network	500 120 737	179 461 281	679 582 018
	816 597 378	**270 450 298**	**1 087 047 676**

Projects taking longer to complete

Project Name	2020	2019
Mini Water Scheme 13: Buffelhoek, Diphichi, Grasvlei,Kgopeng Mphelelo, Ramosesane, Tiberius, Galelia, Vergenoeg (Diphichi Cluster) Multi year	-	24 442 934
Mmahlogo Roads & Stormwater	-	14 204 053
Mapela Sports Stadium	-	19 083 290
Seema/Mapila: Mini Water Scheme Cluster 25	-	59 221 409
Mabuela Roads & Stormwater	-	15 199 860
	-	**132 151 546**

Halted Projects	Carrying Value	Impairment	Net Carrying Value
Duren/Monte Christo mini scheme	178 800	(178 800)	-
Lesodi/Skuilpad Roads & Stormwater	329 761	(329 761)	-
Lusaka/Dikgokgopeng Roads & Stormwater	217 800	(217 800)	-
Machikiri Road & Stormwater	231 068	(231 068)	-
Machikiri stormwater 09/10	49 881	-	49 881
Mini Water Scheme 23: Fothane/Mamaala/Parakisi	16 658 657	-	16 658 657
Monare stormwater	67 684	(67 684)	-
Moshate stadium	44 077 673	(12 273 171)	31 804 502
Piet Se Kop Borrow pit	232 707	(232 707)	-
Ramorulane Roads & Stormwater	288 715	-	288 715
Rantlakana/Makekeng/Baster Roads & Stormwater	297 904	(297 904)	-
Rebone Sports Stadium	15 071 642	-	15 071 642
Sandsloot Mabusela/Masenya Roads & Staormwater	269 756	(269 756)	-
Sekuruwe Cluster Moni Scheme 27 (Multi Year)	56 512 186	-	56 512 186
Skrikfontein A&B Stormwater	236 323	(236 323)	-
Sodoma/Setupulane Roads & Stormwater	282 313	(282 313)	-
	135 002 870	**(14 617 287)**	**120 385 583**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

5. Intangible assets

	2020			2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	5 158 640	(3 742 430)	1 416 210	5 158 640	(3 269 643)	1 888 997

Reconciliation of intangible assets - 2020

	Opening balance	**Amortisation**	**Total**
Computer software, other	1 888 997	(472 787)	1 416 210

Reconciliation of intangible assets - 2019

	Opening balance	**Other changes, movements**	**Total**
Computer software, other	3 068 637	(1 179 640)	1 888 997

Notes to the Annual Financial Statements

Figures in Rand

6. Heritage assets

	2020			2019		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
National Parks	5 867 835	-	5 867 835	5 736 342	-	5 736 342

Reconciliation of heritage assets 2020

	Opening balance	**Additions**	**Total**
National Parks	5 736 342	131 493	5 867 835

Reconciliation of heritage assets 2019

	Opening balance	**Total**
National Parks	5 736 342	5 736 342

7. Operating lease asset

Current assets	2 805 504	482 605
Current liabilities	(68 228)	-
	2 737 276	**482 605**

7.1 Leasing Arrangements.

The Municipality as Lessor:

Operating Leases relate to Property owned by the municipality with lease terms of between 1 to 25 years, with an option to extend.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

7. Operating lease asset (continued)

All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

7.2 Amounts receivable under Operating Leases

At the reporting date the following minimum lease payments were receivable under non-cancellable operating leases for Property, Plant and Equipment, which are receivable as follows:

Operating lease arrangement	2020	2019
0 to 1 year	1 203 558	1 102 395
2 to 5 years	4 953 275	4 818 873
More than 5 years	70 510 146	71 848 106
	76 666 979	**77 769 374**

8. Operating Lease Liability

Operating leases are recognised on a straight line basis as per the requirement of GRAP 13. The following liability existed as at 30 June 2020.

Lease liability		68 228

All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

8.1 Amounts payable under Operating leases	**2020**	**2019**
0 to 1 year	1 634 173	1 460 953
2 to 5 years	812 016	743 899
	2 446 189	**2 204 852**

Figures in Rand	2020	2019

9. Inventories

Consumable stores	17 882 228	16 201 502
Water for distribution	126 236	157 019
Land inventory	385 631 020	388 745 000
	403 639 484	**405 103 521**

Carrying value of land inventory carried at fair value less costs to sell	385 631 000	388 745 000
Inventories recognised as an expense during the year	11 585 515	12 404 573

The land inventory was recognised at fair value less costs to sell due to the fact that the miunicipality could not determine the acquisition date and amounts as the land was registered in the name of the municipality before the year 2000

Inventories are held for own use and measured at the lower of cost and current replacement cost. No write downs of Inventory to net realisable value were required.

Inventory pledged as security

No inventory was pledged as security at the end of the financial year and in the previous financial year.

Water for distribution

Opening balance	157 019	197 971
Authorised consumption	(30 783)	(40 952)
Closing balance	**126 236**	**157 019**

10. Receivables from exchange transactions

Deposits	1 830 215	1 830 215
Housing debtors	392 672	340 281
Non current portion	10 571 839	4 960 368
Sundry debtors	14 649 701	-
Consumer debtors - Electricity	61 161 108	52 025 446
Consumer debtors - Water	214 894 264	78 518 117
Consumer debtors - Waste water	35 882 107	8 684 416
Consumer debtors - Refuse	45 437 083	9 797 832
Consumer debtors - Service Charges	13 600 703	(601 552)
	398 419 692	**155 555 123**

Non-current assets	10 571 839	4 960 368
Current assets	387 847 853	150 594 755
	398 419 692	**155 555 123**

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade and other receivables impaired

As of 30 June 2020, trade and other receivables of R 390 392 883 (2019: R 466 952 590) were impaired and provided for.

Notes to the Annual Financial Statements

10. Receivables from exchange transactions (continued)

Reconciliation of provision for impairment of trade and other receivables

Opening balance	466 952 590	429 724 594
Provision for impairment	(76 559 707)	37 227 996
	390 392 883	**466 952 590**

In determining the recoverability of recievables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairement of receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairement.

The municipality holds collateral over these balances in the form of consumer deposits and quarantees, which are not covering the total outstanding debt and vacant properties respectively.

11. Receivables from non-exchange transactions

Accrued Income	24 775 151	24 775 151
Consumer Debtors - Property Rates	97 842 254	12 535 285
Fines	1 268 158	194 437
Overpayment - Contractors	6 269 810	5 953 515
	130 155 373	**43 458 388**

Receivables from non-exchange transactions pledged as security

No receivables from non exchange transactions were pledged as security at 30 June 2020 (30 June 2019).

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	153 462 015	135 586 481
Provision for impairment	(53 238 388)	17 875 534
	100 223 627	**153 462 015**

12. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	198 065 880	165 996 244
Consumer debtors - Electricity	101 705 464	94 124 275
Consumer debtors - Water	461 780 705	356 627 729
Consumer debtors - Waste water	77 280 103	66 323 892
Consumer debtors - Refuse	99 521 248	84 452 395
Consumer debtors - Service Charges	21 080 627	11 478 320
	959 434 027	**779 002 855**

Less: Allowance for impairment		
Consumer debtors - Rates	(100 223 626)	(153 460 959)
Consumer debtors - Electricity	(40 544 356)	(42 098 829)
Consumer debtors - Water	(246 886 441)	(273 149 244)
Consumer debtors - Waste water	(41 397 996)	(57 639 476)
Consumer debtors - Refuse	(54 084 166)	(75 674 059)
Consumer debtors - Service charges	(7 479 924)	(18 390 623)
	(490 616 509)	**(620 413 190)**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

12. Consumer debtors disclosure (continued)

Net balance		
Consumer debtors - Rates	97 842 254	12 535 285
Consumer debtors - Electricity	61 161 108	52 025 446
Consumer debtors - Water	214 894 264	78 518 117
Consumer debtors - Waste water	35 882 107	8 684 416
Consumer debtors - Refuse	45 437 083	9 797 832
Consumer debtors - Service Charges	13 600 703	(601 552)
	468 817 519	**160 959 544**

Rates		
Current (0 -30 days)	6 173 044	5 416 696
31 - 60 days	2 256 282	3 998 181
61 - 90 days	2 062 752	2 467 588
Greater than 90 Days	87 350 176	652 820
	97 842 254	**12 535 285**

Electricity		
Current (0 -30 days)	20 138 657	27 791 735
31 - 60 days	5 556 561	10 864 184
61 - 90 days	4 261 852	5 903 554
Greater than 90 Days	31 204 037	7 465 973
	61 161 107	**52 025 446**

Water		
Current (0 -30 days)	13 909 240	48 743 846
31 - 60 days	6 033 405	11 123 526
61 - 90 days	5 005 134	9 600 569
Greater than 90 Days	189 946 488	14 010 544
	214 894 267	**83 478 485**

Waste water		
Current (0 -30 days)	1 568 619	1 431 592
31 - 60 days	635 353	1 079 016
61 - 90 days	596 355	809 594
Greater than 90 Days	33 081 780	5 364 214
	35 882 107	**8 684 416**

Refuse		
Current (0 -30 days)	1 628 160	1 380 156
31 - 60 days	709 978	114 834
61 - 90 days	678 417	930 722
Greater than 90 Days	42 420 528	6 352 624
	45 437 083	**8 778 336**

Service Charges		
Current (0 -30 days)	294 831	(7 315 398)
31 - 60 days	70 014	160 719
61 - 90 days	84 844	100 319
Greater than 90 Days	13 151 015	142 057
	13 600 704	**(6 912 303)**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	26 906	26 906
Bank balances	9 372 424	13 346 578
Short-term deposits	26 513 268	14 117 929
	35 912 598	**27 491 413**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	**30 June 2019**	**30 June 2018**	**30 June 2020**	**30 June 2019**	**30 June 2018**
Standard bank - Primary account	24 327 166	11 568 014	9 708 610	9 372 424	13 346 578	7 614 798
Standard Bank call - 002	1 032 599	569 222	499 885	1 032 695	615 726	53 805 730
Standard Bank Call - 052	25 478 164	13 211 256	62 778 601	25 480 572	13 502 202	-
Total	**50 837 929**	**25 348 492**	**72 987 096**	**35 885 691**	**27 464 506**	**61 420 528**

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	51 833 582	-
Integrated National Electricity Programme (INEP)	6 808 937	-
Financial Management Grant	709 399	-
Expanded Public Works Programme (EPWP)	1 294 000	(1)
Water Services Infrastructure Grant (WSIG)	12 594 344	-
Housing Development Agency (HDA)	4 011 095	4 834 614
	77 251 357	**4 834 613**

Movement during the year

Balance at the beginning of the year	4 834 613	17 728 536
Additions during the year	738 545 569	338 442 000
Income recognition during the year	(666 128 825)	(351 335 923)
	77 251 357	**4 834 613**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

15. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Movement	Total
Environmental rehabilitation	41 401 331	(9 085 239)	32 316 092
Provision - Long Service Award	13 703 367	(313 007)	13 390 360
Performance bonus	1 003 591	860 452	1 864 043
Post Retirement Medical Aid Provision	60 928 246	(11 470 340)	49 457 906
Other provisions - Insurance	300 000	-	300 000
	117 336 535	**(20 008 134)**	**97 328 401**

Reconciliation of provisions - 2019

	Opening Balance	Additions	Change in discount factor	Total
Landfill site rehabilitation	35 902 941	5 498 390	-	41 401 331
Long Service Awards	12 217 002	1 486 365	-	13 703 367
Performance Bonus Provision	168 167	835 424	-	1 003 591
Post retirement medical aid provision	66 788 551	(12 372 389)	6 512 084	60 928 246
Other provisions - Insurance	300 000	-	-	300 000
	115 376 661	**(4 552 210)**	**6 512 084**	**117 336 535**

	2020	2019
Non-current liabilities	116 215 036	114 238 985
Current liabilities	2 548 857	3 097 550
	118 763 893	**117 336 535**

Landfill site rehabilitation provision

Provision for rehabilitation of landfill sites relates to the legal obligation to restore and rehabilitate the Mokopane and Rebone landfill sites used for waste disposal. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated, However, uncertainty does not justify the creation of excessive provisions or deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of provision.

Assumptions

The Landfill Closure and Rehabilitation Costing Methodology (LCRCM) consists of five (5) components namely;

The elements that make up the final rehabilitation and closure costs

Basic unit costs for each element

Variables that have an impact on one or more cost elements and result in a loading (positive or negative) on the basic unit cost

A set of algorithms that define the calculation of the amount of the various cost elements by describing the relationship between basic unit costs and the impact of the variables thereon

Discounting of the rehabilitation and closure costs

15. Provisions (continued)

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term /life of the landfill site.

The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualized long term discount rate at 30 June 2020 is 11.28% (2019: 9.64%). The CPIX of 6.61% p.a. in 2020 (2019: 6.21% p.a) was obtained from the differential between the averages of the Nominal Bond of 11.28% and the Real Bond 4.38% p.a. (2019: 3.23% p.a) (Zero Yield Curves).

The are 5 years remaining for both the Mokopane and Rebone sites until closure.

Long service award

Actuarial Method and assumptions:

The valuation of the defined benefit obligation is performed at year end by an independent expert.

Objectives

Funding is the making of advance provision to meet the cost of accruing benefit promises. The funding objectives implicit in GRAP25/IAS19 are to maintain a provision of 100% of the accrued service liability. The maintenance of such a provision gives employees a measure of security in respect of accrued benefit rights and also helps ensure that the employer does not maintain excessive resources within the provision made

Method

The method of funding prescribed by GRAP25 is called the "Project Unit Method". Under this method the accrued service liabilities are determined by projecting all future payments which will be made by the employer in respect of benefits accrued up to valuation date. Assumptions are made in respect of , inter-alia, medical schemecontribution increases, withdrawals, deaths and ill health, early and normal retirements. These payments are discounted at the valuation rate of disount to determine the present value of the liabilities at the valuation date.

The assumptions used in the calculation as discussed above are set out below:

Pace of Funding

It is important to note that the assumptions do not affect the actual cost of the benefit paid, only the pace at which those costs are provided for in the accounts of the Mogalakwena Municipality

An excercise of this nature should be completed every 2 to 3 years in order to monitor progress and ensure the strategy adopted is still approriate.

ANALYSIS OF THE ACTUARIAL (GAIN)/LOSS

The actuarial (gain)/loss summarises the effects of the valuation assumptions compared to the actual experience of the participants. The table below shows a reconciliation of the projected liability to the accrued liability as at 30 June 2020

Accrued Liability	Rands
Accrued liability as at 30 June 2019	13 703 367
1. Service cost	1 225 080
2. Interest cost	1 037 924
3. Expected benefit payments	(1 778 977)
Projected accrued liability as at 30 June 2020	14 187 394
4. Discount rate changes	(1 064 242)
5. Staff changes	(678 484)
6. Salary changes	788 822

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

15. Provisions (continued)

7. Miscellaneous	156 870
Actual accrued liability as at 30 June 2020	**13 390 360**

1. During the 2019/2020 financial year Mogalakwena employees accrued an extra year of service and as a result, the liability increased by R 1 225 080.

2. Interest cost over the valuation period results in an increase in the liability by R1 037 924.

3. Some employees attained milestones during the valuation period and this resulted in a bonus payment of R 1 778 997 which reduced the accrued liability by the same margin

4. The net discount rate changed from 2.58% to 3.88% during the valuation period. The obligation is inversely related to the net discount rate. As a result, the increase in the net discount rate has resulted in a decrease in the obligation.

5. Movements in the staff employed by Mogalakwena during the valuation period resulted in an increase in the liability

6. The salary increases expected as at 1 July 2020 will result in additional increase to the accrued liability.

7. The miscellaneous items in the data resulted in an increase to the liability by R156 870. Factors that make up the miscellaneous items are changes to membership composition, data changes from the previous valuation, and variations from demographic assumptions (i.e rates of withdrawal).

Post Employment Medical Aid Provision

The employer's post employment health care liability consists of a commitment to pay a portion of the pensioner's post employment medical scheme contributions. The liability is also generated in respect of dependents who are offered continued membership of the medical scheme on the death of the primary member.

Eligible employees will receive a post-employment subsidy of 60% of the contribution payable should they be a member of a medical scheme at retirement

All continuation members and their eligible dependents receive a 60% subsidy.

Upon a member's death in retirement, the surviving dependents will continue to receive the same subsidy, however, upon a member's death in service the surviving dependents will not continue to receive the subsidy.

All subsidies are subject to a maximum of R4 492 for the year ending 30 June 2020. The maximum subsidy amount has been assumed to increase in the future at 75% of salary inflation.

Key Valuation assumptions

The methodology of setting financial assumptions has been updated to me more duration specific. The discount rate determined by using the Bond Exchange Zero Coupon Yield of 13.88% per annum (2019: 10.41%) and the duration of the liabilities was 16.04 years. The net discount rate after inflation expectations is 3.88% (2019: 2.50%)

The healthcare cost inflation rate of 9.63% (2019: 7.72%) was assumed and is 1.50% above expected inflation.

The actual expense for the 2019/2020 financial years together with the projected expense for the 2020/2021 financial year is as follows:

Accrued Liability	20 June 2019	30 June 2020	30 June 2021
A: Opening accrued liability	66 788 551	60 928 246	49 457 906
Service cost	3 541 045	4 667 557	4 161 877
Interest cost	6 512 084	6 316 168	6 793 744

Figures in Rand		2020	2019

15. Provisions (continued)

Acturial (Gain)/Loss	(14 561 403)	(21 435 492)	-
Subtotal	62 280 277	50 476 479	60 413 527
Medical contributions subsidies for continuation pensioners	(1 352 031)	(1 018 573)	(1 023 246)
Closing accrued liability	**60 928 246**	**49 457 906**	**59 390 281**

16. Payables from exchange transactions

	2020	2019
Trade payables	223 508 987	160 676 825
Payments received in advanced - contract in process	10 368 617	14 342 499
Control and clearing accounts	(9 960 099)	7 387 329
Deposits received	1 530 538	1 423 797
Retention creditors	86 866 338	104 596 654
Leave accrual	38 457 429	30 792 976
Bonus	7 904 176	7 384 312
Licenses and permits	9 441 324	4 545 161
Other Creditors	218 970	2 668 453
	368 336 280	**333 818 006**

17. VAT payable

	2020	2019
VAT Payable	64 355 801	62 347 672

18. Consumer deposits

	2020	2019
Electricity	19 395 641	17 657 569
Water	4 489 214	4 489 214
Housing rental	92 014	85 263
	23 976 869	**22 232 046**

Consumer deposits are paid by consumers on application for new water and eletrciity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality reserves a right to utilise the deposit in settling the outstanding balances.

Other Consumer Deposits

	2020	2019
Bank Guarantee		2 412 850

19. Revenue

	2020	2019
Sale of goods	742 792	685 364
Rendering of services	86 041	1 734
Service charges	398 424 752	335 196 512
Rental of facilities and equipment	3 834 813	1 508 476
Licences and permits	8 333 821	8 743 072
Miscellaneous other revenue	(360 044)	13 827 618
Other income	2 542 504	1 738 331
Interest received - investment	51 224 342	49 516 336
Property rates	79 014 224	68 002 459
Government grants & subsidies	697 450 274	740 980 922
Fines, Penalties and Forfeits	1 299 550	3 145 433
	1 242 593 069	**1 223 346 257**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

19. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Sale of goods	742 792	685 364
Service charges	398 424 752	335 196 512
Rendering of services	86 041	1 734
Rental of facilities and equipment	3 834 813	1 508 476
Licences and permits	8 333 821	8 743 072
(Losses)/Gains from land sale	(360 044)	13 827 618
Recoveries	2 542 504	1 738 331
Interest received - investment	51 224 342	49 516 336
	464 829 021	**411 217 443**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	79 014 224	68 002 459
Transfer revenue		
Government grants & subsidies	697 450 274	740 980 922
Fines, Penalties and Forfeits	1 299 550	3 145 433
	777 764 048	**812 128 814**

20. Service charges

Sale of electricity	236 354 624	226 116 478
Sale of water	126 933 748	75 733 373
Sewerage and sanitation charges	34 591 134	32 171 742
Other service charges	545 246	1 174 919
	398 424 752	**335 196 512**

21. Rental of facilities and equipment

Premises		
Premises	3 834 813	1 508 476

Included in the above rentals are operating lease rentals at straight-lined amounts of R 2 255 866 (2019: R 2 030 279).

22. Fines, Penalties and Forfeits

Law Enforcement Fines	1 299 550	3 145 433

23. Licences and permits (exchange)

Road and Transport	8 333 821	8 743 072

24. Lease rentals on operating lease

Equipment		
Contractual amounts	927 622	918 447
Plant and equipment		
Contractual amounts	88 387	2 543
	1 016 009	**920 990**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

25. Other Income

Miscellaneous receipts	2 542 504	1 738 331

26. Investment revenue

Interest revenue		
Bank	5 828 783	13 175 492
Interest charged on trade and other receivables	45 395 559	36 340 844
	51 224 342	**49 516 336**

27. Property rates

Rates received

Residential	32 211 140	30 824 967
Commercial	37 175 801	35 996 385
State	9 328 366	1 136 040
Municipal	(3 639)	(62 979)
Public Service Organisations	302 556	108 046
	79 014 224	**68 002 459**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

28. Government grants and subsidies

Operating grants		
Equitable share	436 536 000	397 045 000
Grant - Waterberg District Municipality	8 742 896	-
Extended Public Works Programme (EPWP)	-	1 537 001
Financial Management Grant (FMG)	1 060 601	2 098 535
Municipal Disaster Relief	417 000	-
	446 756 497	**400 680 536**
Capital grants		
Municipal Infrastructure Grant (MIG)	104 583 418	132 858 000
Intergrated National Electrification Programme (INEP)	7 191 063	12 302 000
Regional Bulk Infrastructure Grant (RBIG)	49 368 674	130 000 000
Water Services Infrastructure Grant (WSIG)	57 405 656	52 975 000
Housing Development Agency (HDA)	823 519	12 165 386
Mining Comp Donation	31 321 447	-
	250 693 777	**340 300 386**
	697 450 274	**740 980 922**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	260 914 274	276 560 387
Unconditional grants received	436 536 000	399 143 535
	697 450 274	**675 703 922**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant (MIG)_

Balance unspent at beginning of year	-	17 385 934
Current-year receipts	156 417 000	132 858 000
Conditions met - transferred to revenue	(104 583 418)	(132 858 000)
Other	-	(17 385 934)
	51 833 582	**-**

Conditions still to be met - remain liabilities (see note 14).

Intergrated National Electrification Programme (INEP)

Current-year receipts	14 000 000	12 302 000
Conditions met - transferred to revenue	(7 191 063)	(12 302 000)
	6 808 937	**-**

Conditions still to be met - remain liabilities (see note 14).

Financial Management Grant (FMG)

Balance unspent at beginning of year	-	328 536
Current-year receipts	1 770 000	1 770 000
Conditions met - transferred to revenue	(1 060 601)	(2 098 536)

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

28. Government grants and subsidies (continued)

	709 399	**-**

Expanded Public Works Programme (EPWP)

Balance unspent at beginning of year	(1)	14 066
Current-year receipts	1 294 000	1 537 000
Conditions met - transferred to revenue	-	(1 537 000)
Other	-	(14 067)
	1 293 999	**(1)**

Regional Bulk Infrastructure Grant (RBIG)

Current-year receipts	49 368 674	130 000 000
Conditions met - transferred to revenue	(49 368 674)	(130 000 000)
	-	**-**

Water Services Infrastructure Grant (WSIG)

Current-year receipts	70 000 000	52 975 000
Conditions met - transferred to revenue	(57 405 656)	(52 975 000)
	12 594 344	**-**

Housing Development Agency - HDA

Balance unspent at beginning of year	4 834 614	-
Current-year receipts	-	17 000 000
Conditions met - transferred to revenue	(823 519)	(12 165 386)
	4 011 095	**4 834 614**

Disaster Relief Grant

Current-year receipts	417 000	-
Conditions met - transferred to revenue	(417 000)	-
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

29. Employee related costs

Basic	183 111 273	157 932 763
Bonus	860 453	374 037
Medical aid - company contributions	15 966 580	16 189 690
UIF	1 567 547	1 365 745
SDL	2 635 983	2 022 408
Leave pay	18 103 533	9 530 080
Defined contribution plans	37 544 768	32 660 873
Travel, motor car, accommodation, subsistence and other allowances	32 344 483	28 666 421
Overtime payments	28 225 655	23 728 992
Long-service awards	(1 350 931)	1 486 365
13th Cheques	15 784 379	11 333 382
Acting allowances	1 038 675	3 535 561
Housing benefits and allowances	1 477 295	943 404
Cellphone Allowance	4 839 670	4 408 412
Bargaining Council	116 117	102 909
	342 265 480	**294 281 042**

Remuneration of municipal manager

Annual Remuneration	1 102 206	543 100
Bonuses	91 851	-
Car and other allowance	196 891	142 553
Contributions to UIF, Medical and Pension Funds	263 850	65 153
	1 654 798	**750 806**

Remuneration of chief finance officer

Annual Remuneration	766 485	574 864
Bonuses	113 169	111 472
Car Allowance	332 727	162 198
Contributions to UIF, Medical and Pension Funds	151 173	-
	1 363 554	**848 534**

The CFO resigned on 31 May 2020

Manager - Community Services

Annual Remuneration	179 734	348 665
Acting Allowance	211 879	29 920
Car and Other allowance	49 223	-
Contributions to UIF, Medical and Pension Funds	49 024	-
	489 860	**378 585**

Manager - Corporate Services

Annual Remuneration	753 710	565 283
Car Allowance	212 225	144 148
Contributions to UIF, Medical and Pension Funds	161 970	119 878
Bonuses	62 809	-
	1 190 714	**829 309**

Manager - Traffic and Emergency Services

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

29. Employee related costs (continued)

Annual Remuneration	853 710	975 711
Car Allowance	76 891	174 194
Performance Bonuses	-	76 442
Contributions to UIF, Medical and Pension Funds	182 599	197 780
Bonuses	142 285	-
	1 255 485	**1 424 127**

Manager Technical Services

Annual Remuneration	-	717 913
Car Allowance	-	171 008
Contributions to UIF, Medical and Pension Funds	-	218 564
Acting Allowance	98 233	-
	98 233	**1 107 485**

Manager - Planning and Economic Development

Annual Remuneration	934 642	853 710
Car Allowance	-	152 746
Contributions to UIF, Medical and Pension Funds	-	182 443
Contributions to UIF, Medical and Pension Funds	77 887	-
Other	163 152	-
Other	199 363	-
	1 375 044	**1 188 899**

30. Remuneration of councillors

Mayor	935 850	903 870
Mayoral Committee Members	4 931 103	5 163 257
Speaker	757 078	883 209
Councillors	17 023 447	22 399 614
	23 647 478	**29 349 950**

31. Depreciation and amortisation

Property, plant and equipment	133 584 923	58 859 405
Investment property	-	66 423
Intangible assets	468 498	303 157
	134 053 421	**59 228 985**

32. Impairment of assets

Impairments

Other receivables from non-exchange revenue	-	2 583 457

33. Finance costs

Service concession arrangements	36 448 850	2 685 720

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R 41 658 878 (2019: R 2 685 720).

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

34. Debt impairment

Contributions to debt impairment provision	(129 851 888)	54 956 140

35. Bulk purchases

Electricity - Eskom	220 837 414	205 782 143
Water	23 510 622	34 863 169
Sewer purification	-	95 611
	244 348 036	**240 740 923**

Electricity losses

	Units 2020	Units 2019		
Units purchased	190 948 039	204 893 698	203 849 194	188 208 892
Units sold	(148 402 287)	(163 819 839)	(160 883 525)	(148 836 163)
Total loss	**42 545 752**	**41 073 859**	**42 965 669**	**39 372 729**
Comprising of:				
Non-technical losses	42 545 752	41 073 859	42 965 669	39 372 633
Percentage Loss:				
Non-technical losses	22 %	20 %	21 %	20 %

Water losses

	Number 2020	Number 2019		
Units purchased	5 762 877	6 013 349	22 028 076	48 306 143
Units sold	(4 828 910)	(4 749 819)	(18 503 584)	(45 348 057)
Total	**933 968**	**1 263 530**	**3 524 492**	**2 958 086**
Comprising of:				
Non-technical losses	933 967	1 263 530	3 524 492	2 958 086
Percentage Loss:				
Non-technical losses	16 %	21 %	16 %	21 %

36. Contracted services

Outsourced Services		
Gardening Services	53 122	-
Clearing and Grass Cutting Services	1 495	-
Fire Services	10 500	4 410
Medical Services [Medical Health Services & Suppor	586 434	664 928
Security Services	43 397 269	47 905 539
Transport Services	10 259 034	12 207 697
Electrical	108 622	63 064
Consultants and Professional Services		
Business and Advisory	42 875 827	55 994 374

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

36. Contracted services (continued)

Contractors		
Bore Waterhole Drilling	157 421	962 644
Catering Services	-	585 567
Maintenance of Buildings and Facilities	6 557 760	10 381 454
Maintenance of Equipment	7 439 560	14 411 348
Maintenance of Unspecified Assets	81 728 794	201 952 094
Medical Services	239 929	204 688
Tracing Agents and Debt Collectors	228 834	268 447
Traffic and Street Lights	522 044	451 392
Transportation	195 000	-
Sewerage Services	-	16 000
	194 361 645	**346 073 646**

37. General expenses

Accomodation	783 018	844 159
Advertising	1 907 442	4 113 360
Auditors remuneration	7 751 490	7 611 764
Bank charges	2 156 086	1 274 411
Cleaning	140 500	-
Commission paid	3 426	7 657
Computer expenses	5 654 300	1 570 982
Consumables	11 585 515	12 404 573
Delivery expenses	519 850	403 376
Entertainment	53 946	104 639
Consumables write offs	3 878 267	-
Grass cutting and bush clearing	32 727 817	23 412 912
Indigent relief	5 684 492	5 385 961
Insurance	5 375 692	5 960 186
Landfill site maintanance and provision	810 000	10 454 696
Medical examinations	95 484	14 914
Motor vehicle expenses	3 174 098	1 257 478
Other expenses	8 225 919	6 382 465
Printing and stationery	1 624 441	2 707 798
Repairs and maintenance	1 146 608	375 467
SDL and Ward Commitees	3 813 466	3 880 990
Staff welfare	534 070	447 483
Subscriptions and membership fees	144 424	405 353
Subsistence and Travelling costs	8 796 047	11 373 373
Telephone and fax	1 059 174	938 539
Uniforms	5 581 149	2 748 990
	113 226 721	**104 081 526**

38. Fair value adjustments

Other financial assets		
• Other financial assets (Designated as at FV through P&L	-	24 863 000

39. Auditors' remuneration

Fees	7 751 490	7 611 764

40. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

40. Operating surplus (continued)

Operating lease charges

Equipment		
• Contractual amounts	927 622	918 447
Plant and equipment		
• Contractual amounts	88 387	2 543
	1 016 009	**920 990**

Loss on sale of property, plant and equipment	-	(89 554)
Impairment of other receivables from non-exchange transactions	-	2 583 457
Amortisation on intangible assets	468 498	303 157
Depreciation on property, plant and equipment	133 584 923	58 859 405
Depreciation on investment property	-	66 423
Employee costs	365 912 958	323 630 992

41. Cash generated from operations

Surplus	283 077 317	113 217 324
Adjustments for:		
Depreciation and amortisation	134 053 421	59 228 985
Gain on sale of assets and liabilities	360 044	89 554
Fair value adjustments	-	(24 863 000)
Impairment deficit	-	2 583 457
Debt impairment	(129 851 888)	54 956 140
Movements in operating lease assets and accruals	(2 254 671)	(390 217)
Movements in provisions	1 427 358	1 959 874
Other non-cash items	203 857 976	91 527 664
Changes in working capital:		
Inventories	1 464 037	(374 927 555)
Receivables from exchange transactions	(237 253 098)	(45 195 768)
Consumer debtors	-	(54 956 140)
Other receivables from non-exchange transactions	(86 696 985)	132 121 512
Payables from exchange transactions	34 518 277	83 732 831
VAT	2 008 129	406 487 872
Unspent conditional grants and receipts	72 416 744	(128 563 630)
Consumer deposits	1 744 823	(101 469 279)
	278 871 484	**215 539 624**

42. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	1 200 100 985	1 200 100 985
Other receivables from non-exchange transactions	78 415 489	78 415 489
Cash and cash equivalents	35 912 598	35 912 598
	1 314 429 072	**1 314 429 072**

Financial liabilities

42. Financial instruments disclosure (continued)

	At amortised cost	Total
Trade and other payables from exchange transactions	414 434 740	414 434 740

2019

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	144 973 625	144 973 625
Other receivables from non-exchange transactions	47 570 068	47 570 068
Cash and cash equivalents	27 491 413	27 491 413
	220 035 106	**220 035 106**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	293 063 351	293 063 351

43. Commitments

Authorised capital expenditure

	2020	2019
Already contracted for but not provided for		
• Property, plant and equipment	768 032 994	630 425 546
Total capital commitments		
Already contracted for but not provided for	768 032 994	630 425 546

Authorised operational expenditure

	2020	2019
Already contracted for but not provided for		
• Expenditure	-	23 701 823
Total operational commitments		
Already contracted for but not provided for	-	23 701 823

Total commitments

	2020	2019
Total commitments		
Authorised capital expenditure	768 032 994	630 425 546
Authorised operational expenditure	-	23 701 823
	768 032 994	**654 127 369**

This committed expenditure relates to plant and equipment and will be financed by retained surpluses, existing cash resources, funds internally generated and conditional grants.

The municipality also has numerous contracts based on rates and commitment value cannot be reliably determined.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

44. Contingencies

Contingencies

Forthwith is a list of possible liability claims where the outcome was unknown at June 2020.

Legal claims against the municipality	Claim Amount	Cause of action	Status of outcome of the dispute
Academy of Sports Excellence	96 000.00	Dispute on water account	The matter is being defended and still pending
Emang Development Projects CC	365 132.06	Cancellation of construction project.	The matter is being defended and still pending
Gov-Al Properties CC	817 512.86	Claim for purchase price and assessment rates paid and town planning costs incurred.	The matter is being defended and still pending
M S Bambo	157 000.96	Violation of human dignity	The matter is being defended and still pending
Various EXT 12 individuals	918 686.80	Claiming 20% of purchase price for erf in Ext 12	The matter is being defended and still pending
Photo Luxury Tours	71 000.00	Claim for services rendered	The matter is being defended and still pending
Kenneth Maela	65 000.00	Claim for services rendered	The matter is being defended and still pending
George Edward Morkel Brink	30 153.00	Claim for storage cost	The matter is being defended and still pending
Bicacon vs MLM	56 277 632.00	Claim for not being awarded a tender whereas they were entitled.	The matter is being defended and still pending
Mmusho Security & Projects vs MLM	6 300 242.98	Breach of Contract	The matter is being defended and still pending
CSI AFRICA VS MLM	376 256.15	A claim for service rendered	The matter is being defended and still pending
High Risk Reaction Unit vs MLM	7 397 916.00	Claim for security services allegedly rendered	The matter is being defended and still pending
The Voice Press vs MLM	633 000.00	Claim for services rendered	The matter is being defended and still pending
S&M Montani vs MLM	9 150 000.00	Claim for damages suffered as a result of municipal strike	The matter is being defended and still pending
Mokgwathi Masilo Bethuel	2 824 210.00	The plaintiff alleges that he fell into a water drainage where the municipal employees or contractors were working	The matter is being defended and still pending
KTS General & Mahlatsi Security Services	6 949 045.23	Breach of Contract	The matter is being defended and still pending

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

44. Contingencies (continued)

Lesibasiba Projects	16 758 522.42	Claim for services rendered	The matter is being defended and still pending
Tsentse Manufacturing	4 014 418.34	Claim for services rendered	The matter is being defended and still pending
Pheehane Enterprises	790 500.00	Claim for services rendered	The matter is being defended and still pending
M A Ntjana Construction CC	10 100 000.00	Termination of contract and non-payment of increase.	The matter is being defended and still pending
M H Thobejane	30 341 631.58	Termination of contract and defamation.	The matter is being defended and still pending
Mokerong Driving School	1 350 000.00	Claim for services rendered	The matter is being defended and still pending
Bettie Mahlagu and one other	Undetermined	Application to reverse the legal process	The matter is being defended and still pending
Total	**155 783 860,38**		

Insurance Claims:

The municipality as at 30 June 2020 had the following insurance damage claims

Alleged Damages Incurred:	2020	2019
Claims lodged against the municipality for alleged damages caused by incidents of which the municipality should take ownership, have been referred to the municipality's insurers.	3 431 394, 92	3 851 501,16

45. Related parties

Relationships

Accounting Officer — Refer to accounting officer's report note

30 June 2020	Total Remuneration	Consumer account in arrears	Loans advanced	Loans repaid	Total Loans
Accounting Officer	1 654 797	-	-	-	-
Municipal Mayor	947 845	13 706	-	-	-
Speaker	973 123	-	-	-	-
Chief Whip	875 155	-	-	-	-
Other Committees					
Special Project Committee	2 266 451	12 184	-	-	-
Traffic & Emergency Services Committee	2 739 940	5 015	-	-	-
Community Services Committee	3 014 773	-	-	-	-
Finance Committee	2 439 706	-	-	-	-
Corporate Support Services Committee	3 522 678	-	-	-	-
Technical Services Committee	3 902 587	3 883	-	-	-
Planning & Developmental Services Committee	4 087 061	704	-	-	-
Electrical Services Committee	2 817 902	-	-	-	-
Rules Committee	2 458 289	1 509	-	-	-
Municipal Public Accounts Committee	6 298 385	-	-	-	-
	37 998 692	**37 001**	**-**	**-**	**-**

30 June 2019	Total Remuneration	Loans Advanced	Loans Repaid	Total Loans	Consumer Account in Arrears
Accounting Officer	750 806	-	-	-	-
Municipal Mayor	903 871	-	-	-	14 856
Speaker	916 486	-	-	-	-
Chief Whip	593 640	-	-	-	-
Other Committees					
Special Projects Committee	2 018 099	-	-	-	41 234
Traffic & Emergency Services Committee	2 537 302	-	-	-	6 917
Community Services committee	2 900 116	-	-	-	-
Finance Committee	1 962 759	-	-	-	-
Corporate Support Services Committee	2 650 411	-	-	-	-
Technical Services Committee	3 536 073	-	-	-	3 822
Planning & Developmental Services Committee	3 388 665	-	-	-	-
Electrical Services	2 522 281	-	-	-	-
Rules Committee	2 409 352	-	-	-	1 184
Municipal Public Accounts Committee	5 120 416	-	-	-	-
	32 210 277	**-**	**-**	**-**	**68 013**

For transactions and account balances for senior management, see note 28 on Employee Costs.

Waterberg District Municipalities	**Loans repaid**
Receivables - Firefighting subsidies	9 439 672

Remuneration of management

46. Prior period errors

Presented below are the financial statement elements in the statement of financial position, statement of financial performance and cash flow statement require adjustments in the prior year:

Inventory

In the prior year 30 June 2019, inventory of R445 409 521 was overstated with and amount of R230 223 557 due to incorrect valuation. In the prior year the deemed cost of the land was the fair value as at 30 June 2019. The cost of the vacant land has now been deemed to the earliest take-on balance which was determined as at 30 June 2016. Further, there were investment properties to the value of R195 917 577 where the intention has changed from holding the vacant land for rental purposes or for appreciation in terms of GRAP26 and is held for sale and is accounted for in terms of the statement on inventories GRAP12.

Operating lease asset

The prior errors comprise the effects of straightling of the leased properties of the municipality for R381 404.

Receivables from exchange transactions

The change from prior was due to a combination of both the change in the method to calculating the impairment for receivables and the re-classification of votes between the various classifications on receivables.

Property plant and equipment

In the previous financial year of 2018/2019, the property, plant and equipment balance of R4 595 258 895 was overstated by an amount of R385 766 652. This was due to assets not being capitalised, assets were not assessed for impairment and impaired appropriately, duplicate land assets in the asset register, and due to the incorrect calculation of accumulated depreciation.

Further, an adjustment was required to reduce work in progress by R143 516 143. This was due to projects capitalised in the prior year that were not updated in the annual financial statements.

Investment property

Investment property has been restated from R270 328 577 to R74 411 000. This is largely attributable to a transfer of land from investment property to land inventory.

Intangibles

The carrying value of intangibles has decreased by R408 302 to R1 888 998. This is due to an incorrect calculation of accumulated amortisation.

Employee related costs

The closing balance of the employee related cost was understated in the prior year by R 20 202 143 this is due to integration and mapping issues. The amount has been restated to R 304 747 040.

Fruitless and wasteful expenditure

The opening balance for 2018/19 was different from the 2017/18 closing balance error corrected.

The fruitless and wasteful movement for the year 2018/19 has been reinstated with interest charged on invoices that were not captured as fruitless and wasteful. The amount was understated by R 5 526 651.

47. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

47. Prior-year adjustments (continued)

Statement of financial position

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Inventories	9&1.11	445 409 521	(236 223 557)	195 917 577	405 103 541
Operating lease assets		101 200	381 405	-	482 605
Receivables from exchange transactions		144 973 625	2 369 879	-	147 343 504
Investment property		270 328 577	-	(195 917 577)	74 411 000
Property, plant and equipment		4 595 258 892	242 160 954	-	4 837 419 486
Intangible assets		2 297 300	(408 303)	-	1 888 997
Payable from exchange transactions		(321 679 808)	12 138 198	-	(309 541 610)
		5 136 689 307	**20 418 576**	**-**	**5 157 107 523**

Statement of financial performance

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Service Charges		334 177 016	-	1 019 496	335 196 512
Gain / (Losses) on sale of land inventory		1 527 020	-	12 300 598	13 827 618
Fines, penalties and forfeits		(3 158 007)	-	12 574	(3 145 433)
Contracted services		(88 127 178)	-	(106 234 467)	(194 361 645)
Empoyee related cost		(302 714 632)	20 203 243	(11 769 653)	(294 281 042)
General expenses		(113 445 256)	-	9 363 730	(104 081 526)
Repairs and maintenance		(185 896 383)	-	185 896 383	-
Remuneration of councilors		(19 063 173)	(10 286 777)	-	(29 349 950)
Surplus for the year		**(376 700 593)**	**9 916 466**	**90 588 661**	**(276 195 466)**

Cash flow statement

2019

	Note	As previously reported
Cash flow from operating activities		
Service charges		(21 243 450)
Grants		(728 086 999)
Interest income		(49 516 336)
Employee costs		318 525 636
Suppliers		526 349 253
Finance costs		2 685 720
		48 713 824
Cash flow from investing activities		
Purchase of Property Plant & Equipment		6 830 557
Purchase of Other Intangible Assets		543 390
Purchases of other assets		15 122 198
		22 496 145

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

48. Comparative figures

Certain comparative figures have been reclassified and restated. The impact on the reclassifications and restatements is documented on prior period error note.

49. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. The municipality manages its credit risk through payment of deposits disconnection in the case of non-payment.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2020**	**2019**
Cash and Bank	35 512 598	27 491 413
Trade and other reveivables	1 200 100 985	149 933 993

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

50. Events after the reporting date

No adjusting events after balance sheet date:

51. Unauthorised expenditure

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	55 620 845	86 374 415
Cash	22 865 045	145 284 967
	78 485 890	**231 659 382**

Analysed as follows: non-cash

Provision of impairment	55 620 845	86 374 415

Analysed as follows: cash

Contracted services	22 865 045	-
Employee related costs	-	145 284 967
	22 865 045	**145 284 967**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

51. Unauthorised expenditure (continued)

Unauthorised expenditure: Budget overspending – per municipal department:

Operational Expenditure	**Budget**	**Actual Expenditure**	**Unauthorised**
Municipal Manager	87 655 173	13 701 633	-
Corporate Services	63 353 788	(65 763 901)	(2 410 113)
Budget & Treasury	71 557 326	(81 510 621)	(9 953 295)
Planning & Development	24 215 276	20 816 696	-
Technical Services	291 680 432	(357 802 914)	(66 122 482)
Community Services	94 482 859	85 840 219	-
Traffic & Emergency	90 542 428	88 610 773	-
Electrical Services	283 782 667	269 473 971	-
	1 007 269 949	**(26 634 144)**	**(78 485 890)**

Capital Expenditure	**Budget**	**Actual Expenditure**	**Unauthorised**
Municipal Manager	621 896	(1 365 220)	(743 324)
Corporate Services	500 000	49 750	-
Budget & Treasury	-	(14 500)	(14 500)
Planning & Development	30 000	(35 822)	(5 822)
Technical Services	497 202 201	247 286 830	-
Community Services	19 091 720	(11 675 596)	-
Traffic & Emergency	-	(84 424)	(84 424)
Electrical Services	16 011 900	9 217 462	-
	533 457 717	**243 378 480**	**(848 070)**

52. Fruitless and wasteful expenditure

	2020	2019
Opening Balance previously reported	11 305 709	4 444 824
Correction of prior period error	5 526 651	3 424 196
Opening balance as restated	**16 832 360**	**7 869 020**
Add: Expenditure identified - current	166 681 851	3 436 689
Less: Written off - current period	(19 178 529)	-
Closing balance	**164 335 682**	**11 305 709**

53. Irregular expenditure

	2020	2019
Opening Balance	2 269 050 234	1 717 838 241
Correction of prior period error - 2017/2018	-	42 088 596
Correction of prior period error - 2018/2019	91 343 901	-
Opening balance as restated	**2 360 394 135**	**1 759 926 837**
Add: Irregular Expenditure - current	341 624 644	509 123 397
Less: Amount written off - current	(410 403 614)	-
Closing balance	**2 291 615 165**	**2 269 050 234**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

53. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

Bid committees not properly constituted	91 032 055	165 920 865
No evidence that bids were properly advertised	4 832 623	11 081 134
Non compliance with SCM regulations - evaluations criteria	11 095 068	371 789 942
Non compliance with SCM policy	177 708 107	-
Incorrect application of Regulation 32	11 949 463	1 556 131
Incorrect application of Regulation 36	44 389 776	863 921
Invalid Contract (Lapsed Contracts)	617 553	-
	341 624 645	**551 211 993**

54. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	283 077 317	113 217 324

55. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	4 421 493	3 088 820
Amount paid - current year	(4 421 493)	(3 088 820)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

55. Additional disclosure in terms of Municipal Finance Management Act (continued)

Material losses through criminal conduct

Current year subscription / fee	2 565 346	2 431 200
Amount paid - current year	(2 565 346)	(2 041 000)
	-	**390 200**

The municipality has during the year transferred errorneoslly paid an amount of R2 431 200 into incorrect banking accounts. A refund of R2 041 000 was since received from ABSA and the outstanding balance of R390 200 has been recorded as sundry debtors. The investigation into the incident is in progress

Audit fees

Current year subscription / fee	5 949 128	5 050 713
Amount paid - current year	(5 949 128)	(5 050 713)
	-	-

PAYE, SKILLS DEVELOPMENT LEVY and UIF

Current year subscription / fee	52 896 228	46 378 833
Amount paid - current year	(52 896 228)	(46 378 833)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	70 181 580	63 313 200
Amount paid - current year	(70 181 580)	(63 313 200)
	-	-

55. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
RA Matsamela	10 205	3 501	13 706
MP Sebatjana	3 746	1 269	5 015
SCG Senosha	621	11 563	12 184
MM Rapatsa	1 267	241	1 508
ME Kekana	1 182	96	1 278
TM Kekana	529	175	704
LD Langa	1 199	-	1 199
MM Senoamadi	2 052	60	2 112
SM Sekhaolelo	370	123	493
PC Oliphant	20	-	20
	21 191	**17 028**	**38 219**

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
RA Matsemela	9 940	4 916	14 856
MP Sebatjana	5 526	1 392	6 918
SCG Senosha	1 322	39 912	41 234
MM Rapatsa	1 184	-	1 184
ME Kekana	1 778	-	1 778
LD Langa	2 004	-	2 004
MM Senoamadi	1 325	-	1 325
SM Sekhaolelo	719	-	719
	23 798	**46 220**	**70 018**

During the year the following Councillors’ had arrear accounts outstanding for more than 90 days.

30 June 2020	Highest outstanding amount	Aging (in days)
MP Sebatjana	2 762	90
SCG Senosha	37 480	90
MM Rapatsa	836	90
ML & MM Senoamadi	60	90
SM Sekhaolelo	287	90
ME Malatje	287	90
RA Matsamela	4 333	90
PC Oliphant	2 495	90
	48 540	**-**

30 June 2019	Highest outstanding amount	Aging (in days)
LD Langa	730	90
MP Sebatjana	5 280	90
SCG Senosha	39 913	90

Figures in Rand	2020	2019

55. Additional disclosure in terms of Municipal Finance Management Act (continued)

MM Rapatsa	2 095	90
SM Sekhaolelo	144	90
ME Malatje	5 776	90
RA Matsemela	7 916	90
	61 854	**-**

56. Deviation from supply chain management regulations

Supply chain manaement regulations
In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by council. The expenses incurred as listed hereunder have been condoned.

INCIDENTS	2020	2019
Impractical	38 831 538	2 075 517
Emergency	5 558 237	13 399 980
Sole Provider	182 520	475 163
	44 572 295	**15 950 660**

57. Budget differences

Material differences between budget and actual amounts

N1. Sales and rendering of service

The municipality was not able to perform on its regular rendering of services due to the National lockdown, hence the low actual amount.

N2. Agency services & Licences and permits

The variance on the two line items combined is -19%. Treasury advised the municipality to split the two as per mSCOA chart. Therefore, major differences is as per transaction allocation. The 19% variance is as a result of the municipality not being able to render the service of licencing during the first period of the National lockdown.

N3. Interest earned-external investment

Negative variance of 12% is as a result of the dropped prime interest rate during the financial year.

N4. Interest received-outstanding debtors

Positive variance of 10%. Interest on outstanding debtors has been billed more than anticipated due to customers' outstanding accounts as a result of the national lockdown.

N5. Government grants and subsidies

The Budgeted amount of R72M from Ivanplats was not received. The municipality recognised an amount of R220M as revenue which is based on the expenditure incurred on conditional grants.

N6. Gains

Included in the budgeted amount was sale of assets, mainly fleet through an auction. The auction was not done during the financial year.

N7. Fines, penalties, forfeits

The negative variance is as a result of poor collections on traffic fines.

N8. Depreciation and amortisation

57. Budget differences (continued)

Variance on depreciation and amortisation is as a result of the municipality's asset register that lead to under-budgeting for depreciation

N9. Finance cost

The difference is as a result of finance charges not budgeted for.

N10. Debt impairment

The variance is attributable to a correction in the methodology for the determining of bad debt provision in comliance with GRAP 104.

N11. Contracted service

Negative variance in contracted services is as a result of the municipality implementing the cost cutting measures.

N12. Transfers and subsidies paid

The municipality did not utilise the budgeted amount, mainly due to activities halted by the national lockdown.

Financial Position and Cash Flow

The variances on the balance sheet and cash flows are mainly due to incorrect budget amounts because of an unavailable accurate base due to incorrect figures reported in the previous financial year.